

PERAC AUDIT REPORT



Marlborough Contributory
Retirement System



JAN. 1, 2012 - DEC. 31, 2015



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

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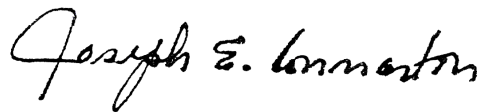
January 9, 2018

The Public Employee Retirement Administration Commission has completed an examination of the Marlborough Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2012 to December 31, 2015. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception noted in the finding presented in this report.

In closing, I acknowledge the work of examiners George Nsia and Carol Poladian who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesies and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDING AND RECOMMENDATION

Monthly Financial Reporting:

The minutes indicate that there are timing delays in the Board review of the monthly cash books during the audit period. In addition, we noted that several meeting minutes during the years under audit did not state review of monthly bank reconciliations.

Recommendation: Each month the Board administrator should prepare a packet which consists of the following items:

- Cash reconciliation including bank statements
- Trial Balance
- Cash Receipts
- Cash Disbursements
- Adjusting Journal Entries
- Budget to Actual Expense Comparison (if not monthly, quarterly)
- Cash Flow Forecast

This process will assist the Retirement Board in the exercise of their fiduciary responsibilities. The distribution of additional financial data will provide a basis for formalizing the supervision of the system by the Retirement Board. It will also help to determine that Board policy is implemented and adhered to. A notation should be made in the minutes indicating that the documents have been presented to the Retirement Board.

Board Response:

The Marlborough Retirement Board acknowledges delays in reviewing cash books and reconciliations. The delays were primarily attributable to our software which did not allow current year entries until the closing of prior year. The prior year's accounting was always closed in late April to coincide with filing of the annual statement in May. As a result, the financial reports for January to April could not be produced until late May at the earliest. A new software provider was hired in late 2016 which accommodates multi-year entries so this issue will be resolved in 2017.

The Budget to Actual Expense Comparison Report was not dependent on the system's software and has been reviewed each month and recorded in the minutes since before 1999.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,			
	2015	2014	2013	2012
Net Assets Available For Benefits:				
Cash	\$292,077	\$3,802,890	\$3,661,704	\$3,273,437
Pooled Domestic Equity Funds	\$53,815,737	\$56,248,658	\$53,486,359	\$40,284,290
Pooled International Equity Funds	\$16,753,234	\$15,178,724	\$17,051,342	\$14,071,139
Pooled Domestic Fixed Income Funds	\$59,255,451	\$57,281,280	\$50,408,700	\$51,349,846
Pooled International Fixed Income Funds	\$3,970,596	\$4,004,159	\$0	\$0
Pooled Alternative Investment Funds	\$2,108,216	\$2,544,655	\$3,033,568	\$3,137,593
Pooled Real Estate Funds	\$6,833,035	\$5,664,936	\$5,107,027	\$4,060,698
Interest Due and Accrued	\$86	\$8	\$18	\$168
Accounts Receivable	\$114,506	\$115,496	\$3,856,201	\$3,680,796
Accounts Payable	<u>(\$161,709)</u>	<u>(\$119,551)</u>	<u>(\$106,934)</u>	<u>(\$74,644)</u>
Total	<u>\$142,981,228</u>	<u>\$144,721,256</u>	<u>\$136,497,984</u>	<u>\$119,783,323</u>
Fund Balances:				
Annuity Savings Fund	\$33,566,200	\$33,801,128	\$33,656,106	\$31,502,520
Annuity Reserve Fund	\$11,761,037	\$10,433,910	\$9,204,165	\$9,538,733
Pension Fund	\$1,898,936	\$3,198,176	\$3,945,714	\$4,517,186
Military Service Fund	\$15,979	\$10,851	\$10,841	\$10,830
Expense Fund	\$0	\$0	\$0	\$0
Pension Reserve Fund	<u>\$95,739,076</u>	<u>\$97,277,190</u>	<u>\$89,681,159</u>	<u>\$74,214,054</u>
Total	<u>\$142,981,228</u>	<u>\$144,721,256</u>	<u>\$136,497,984</u>	<u>\$119,783,323</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2012)	\$30,702,919	\$8,580,779	\$4,849,694	\$10,819	\$0	\$63,570,172	\$107,714,382
Receipts	3,267,056	268,121	7,616,543	11	589,430	10,630,594	22,371,754
Interfund Transfers	(2,032,883)	2,031,597	(12,002)	0	0	13,288	(0)
Disbursements	(434,572)	(1,341,763)	(7,937,048)	0	(589,430)	0	(10,302,813)
Ending Balance (2012)	31,502,520	9,538,733	4,517,186	10,830	0	74,214,054	119,783,323
Receipts	3,336,566	275,590	7,728,690	11	764,346	15,473,977	27,579,180
Interfund Transfers	(824,512)	831,384	0	0	0	(6,872)	(0)
Disbursements	(358,469)	(1,441,542)	(8,300,163)	0	(764,346)	0	(10,864,519)
Ending Balance (2013)	33,656,106	9,204,165	3,945,714	10,841	(0)	89,681,159	136,497,984
Receipts	3,380,082	291,851	7,986,650	11	823,358	7,557,972	20,039,924
Interfund Transfers	(2,539,384)	2,501,325	0	0	0	38,059	(0)
Disbursements	(695,675)	(1,563,432)	(8,734,188)	0	(823,358)	0	(11,816,653)
Ending Balance (2014)	33,801,128	10,433,910	3,198,176	10,851	(0)	97,277,190	144,721,256
Receipts	3,367,167	338,910	8,114,715	5,127	778,377	(1,583,090)	11,021,206
Interfund Transfers	(2,855,277)	2,820,314	(10,014)	0	0	44,976	0
Disbursements	(746,818)	(1,832,097)	(9,403,942)	0	(778,377)	0	(12,761,234)
Ending Balance (2015)	<u>\$33,566,200</u>	<u>\$11,761,037</u>	<u>\$1,898,936</u>	<u>\$15,979</u>	<u>(\$0)</u>	<u>\$95,739,076</u>	<u>\$142,981,228</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
Annuity Savings Fund:				
Members Deductions	\$2,970,434	\$2,985,813	\$2,932,734	\$2,821,477
Transfers from Other Systems	329,972	339,731	217,441	324,197
Member Make Up Payments and Re-deposits	19,915	8,957	95,925	7,886
Member Payments from Rollovers	0	0	47,245	75,969
Investment Income Credited to Member Accounts	46,846	45,580	43,222	37,527
Sub Total	<u>3,367,167</u>	<u>3,380,082</u>	<u>3,336,566</u>	<u>3,267,056</u>
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	<u>338,910</u>	<u>291,851</u>	<u>275,590</u>	<u>268,121</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	220,454	187,529	190,209	171,996
Received from Commonwealth for COLA and Survivor Benefits	92,340	99,121	59,667	119,489
Pension Fund Appropriation	7,796,221	7,700,000	7,478,815	7,325,058
Settlement of Workers' Compensation Claims	5,700	0	0	0
Recovery of 91A Overearnings	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>8,114,715</u>	<u>7,986,650</u>	<u>7,728,690</u>	<u>7,616,543</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	5,116	0	0	0
Investment Income Credited to the Military Service Fund	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>
Sub Total	<u>5,127</u>	<u>11</u>	<u>11</u>	<u>11</u>
Expense Fund:				
Investment Income Credited to the Expense Fund	<u>778,377</u>	<u>823,358</u>	<u>764,346</u>	<u>589,430</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	3,704	12,421	12,982	11,484
Interest Not Refunded	2	14	13	0
Miscellaneous Income	0	0	452	0
Excess Investment Income	(1,586,796)	7,545,537	15,460,531	10,619,110
Sub Total	<u>(1,583,090)</u>	<u>7,557,972</u>	<u>15,473,977</u>	<u>10,630,594</u>
Total Receipts, Net	<u>\$11,021,206</u>	<u>\$20,039,924</u>	<u>\$27,579,180</u>	<u>\$22,371,754</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
Annuity Savings Fund:				
Refunds to Members	\$334,877	\$269,935	\$161,690	\$242,763
Transfers to Other Systems	<u>411,942</u>	<u>425,740</u>	<u>196,779</u>	<u>191,809</u>
Sub Total	<u>746,818</u>	<u>695,675</u>	<u>358,469</u>	<u>434,572</u>
Annuity Reserve Fund:				
Annuities Paid	1,798,687	1,563,432	1,402,922	1,341,763
Option B Refunds	<u>33,409</u>	<u>0</u>	<u>38,620</u>	<u>0</u>
Sub Total	<u>1,832,097</u>	<u>1,563,432</u>	<u>1,441,542</u>	<u>1,341,763</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	6,807,922	6,253,636	5,860,641	5,709,790
Survivorship Payments	445,729	437,367	449,498	421,255
Ordinary Disability Payments	118,970	103,261	82,010	102,150
Accidental Disability Payments	1,396,885	1,314,041	1,179,726	1,178,575
Accidental Death Payments	348,487	343,327	392,840	299,342
Section 101 Benefits	59,928	58,183	53,164	50,566
3 (8) (c) Reimbursements to Other Systems	<u>226,020</u>	<u>224,373</u>	<u>282,282</u>	<u>175,370</u>
Sub Total	<u>9,403,942</u>	<u>8,734,188</u>	<u>8,300,163</u>	<u>7,937,048</u>
Expense Fund:				
Board Member Stipend	15,000	15,000	15,000	15,000
Salaries	130,216	129,526	125,363	122,852
Legal Expenses	11,933	17,018	5,002	3,933
Travel Expenses	1,376	1,341	1,516	1,000
Administrative Expenses	2,620	3,789	5,170	3,010
Actuarial Services	17,500	14,000	0	0
Education and Training	1,080	1,380	1,330	1,080
Furniture and Equipment	0	1,598	0	0
Management Fees	529,438	573,994	546,466	374,899
Custodial Fees	14,264	13,942	13,525	17,131
Consultant Fees	37,500	35,000	35,000	35,000
Service Contracts	10,188	9,703	9,241	8,801
Fiduciary Insurance	<u>7,263</u>	<u>7,069</u>	<u>6,733</u>	<u>6,724</u>
Sub Total	<u>778,377</u>	<u>823,358</u>	<u>764,346</u>	<u>589,430</u>
Total Disbursements	<u>\$12,761,234</u>	<u>\$11,816,653</u>	<u>\$10,864,519</u>	<u>\$10,302,813</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
Investment Income Received From:				
Cash	\$521	\$240	\$829	\$1,893
Securities Litigation	0	0	2,363	13,973
Pooled or Mutual Funds	<u>2,471,726</u>	<u>1,367,730</u>	<u>1,398,649</u>	<u>1,374,552</u>
Total Investment Income	<u>2,472,247</u>	<u>1,367,970</u>	<u>1,401,841</u>	<u>1,390,418</u>
Plus:				
Realized Gains	3,723,567	2,947,805	2,028,987	411,561
Unrealized Gains	5,321,183	8,846,067	15,615,385	12,439,915
Interest Due and Accrued - Current Year	<u>86</u>	<u>8</u>	<u>18</u>	<u>168</u>
Sub Total	<u>9,044,836</u>	<u>11,793,880</u>	<u>17,644,390</u>	<u>12,851,644</u>
Less:				
Realized Loss	(560,224)	(732,001)	(15,231)	(5,068)
Unrealized Loss	(11,379,504)	(3,723,494)	(2,487,133)	(2,722,795)
Interest Due and Accrued - Prior Year	<u>(8)</u>	<u>(18)</u>	<u>(168)</u>	<u>0</u>
Sub Total	<u>(11,939,735)</u>	<u>(4,455,513)</u>	<u>(2,502,532)</u>	<u>(2,727,863)</u>
Net Investment Income	<u>(422,652)</u>	<u>8,706,338</u>	<u>16,543,699</u>	<u>11,514,199</u>
Income Required:				
Annuity Savings Fund	46,846	45,580	43,222	37,527
Annuity Reserve Fund	338,910	291,851	275,590	268,121
Military Service Fund	11	11	11	11
Expense Fund	<u>778,377</u>	<u>823,358</u>	<u>764,346</u>	<u>589,430</u>
Total Income Required	<u>1,164,144</u>	<u>1,160,800</u>	<u>1,083,168</u>	<u>895,089</u>
Net Investment Income	<u>(422,652)</u>	<u>8,706,338</u>	<u>16,543,699</u>	<u>11,514,199</u>
Less: Total Income Required	<u>1,164,144</u>	<u>1,160,800</u>	<u>1,083,168</u>	<u>895,089</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>(\$1,586,796)</u>	<u>\$7,545,537</u>	<u>\$15,460,531</u>	<u>\$10,619,110</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2015		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$292,077	0.2%
Pooled Domestic Equity Funds	53,815,737	37.6%
Pooled International Equity Funds	16,753,234	11.7%
Pooled Domestic Fixed Income Funds	59,255,451	41.4%
Pooled International Fixed Income Fund	3,970,596	2.8%
Pooled Alternative Investment Funds	2,108,216	1.5%
Pooled Real Estate Funds	<u>6,833,035</u>	<u>4.8%</u>
Grand Total	<u>\$143,028,345</u>	<u>100.0%</u>

For the year ending December 31, 2015, the rate of return for the investments of the Marlborough Retirement System was -0.56%. For the five-year period ending December 31, 2015, the rate of return for the investments of the Marlborough Retirement System averaged 6.47%. For the 31-year period ending December 31, 2015, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Marlborough Retirement System was 8.30%.

The composite rate of return for all retirement systems for the year ending December 31, 2015 was 0.91%. For the five-year period ending December 31, 2015, the composite rate of return for the investments of all retirement systems averaged 7.49%. For the 31-year period ending December 31, 2015, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.14%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Marlborough Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

May 28, 2009

16.08

In accordance with Investment Guideline 99-2, the Marlborough Retirement Board is authorized to make modest modifications to two passive fixed income products managed by State Street Global Advisors. In order to minimize the chances for liquidity impairment and potential losses from collateral pools, the Board will transfer assets from securities lending versions of SSGA's U.S. Aggregate Index and TIPS Index products to versions that do not allow securities lending.

September 1, 2005

16.08

The Marlborough Retirement Board is authorized to modify its fixed income mandate with State Street Global Advisors. Approximately 19% of the current allocation to SSGA's Bond Market Index Fund will be transferred to SSGA's Treasury Inflation Protected Securities Index mandate in order to achieve both inflation protection and overall diversification benefits to the portfolio. The Board has had a satisfactory relationship with SSGA and, after considering SSGA's capabilities in TIPS as well as its fee structure, it feels strongly that this modification is in the best interest of the system.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Marlborough Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a) (17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$846.12 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$846.12 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of \$150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-rata may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Marlborough Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

Membership:

July 19, 2002

1. Membership in the retirement system is mandatory for all non-temporary employees whose position requires at least 1040 hours per year and who receive regular compensation in excess of \$5,000 per year.
2. Temporary employees or employees who work less than 1040 hours per year are ineligible for initial membership. A temporary employee is an employee whose position is intended to be less than 6 months in duration.

Creditable Service:

October 28, 2014

1. A full-time employee will receive 1 month of creditable service for each full month of employment completed provided he/she receives regular compensation and retirement contributions are remitted to the Marlborough Retirement Board.
2. A School Department employee whose position requires a 10 month period of employment will receive 1 month of creditable service for each full month of employment completed provided he/she receives regular compensation and retirement contributions are remitted to the Marlborough Retirement Board. Said employees will receive 1 year of service for each 10 month period employed.
3. A part-time employee who has always been employed on a part-time basis will receive 1 month of creditable service for each full month of employment completed provided he/she receives regular compensation and retirement contributions are remitted to the Marlborough Retirement Board.
4. A member who has been employed in both a full-time and part-time capacity will receive full-time credit for full-time service and pro-rated credit for part-time service based on the fulltime equivalency of that position provided he/she receives regular compensation and retirement contributions are remitted to the Marlborough Retirement Board. Cafeteria workers will be exempt from proration.

July 19, 2002:

1. Full-time employees will receive 1 year of creditable service for each year employed. Part-time employees whose position has always been part-time will receive full creditable service.
2. Part-time employees who become full time employees will have their part-time service pro-rated as it related to full-time service.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

3. School department who are employed for the school year will receive 1 year of creditable service.

Regular Compensation:

June 14, 1999

Buy-back Military Service: Military service credit [pursuant to Chapter 71 of the Acts of 1996] may be purchased anytime before a member's effective date of retirement. Payment for service must be made in a lump sum.

December 24, 1985

Proof of Employment: Affidavits are not acceptable as proof of employment. Official records such as payroll checks or records, board minutes, official department logs, civil service records, etc. are deemed by the board to be acceptable as proof of employment.

Travel Regulations:

October 8, 2002

The Marlborough Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations are available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/Marlborough>.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Diane Smith

Appointed Member: Thomas J. Abel Until a successor is appointed

Elected Member:	Gregory P. Brewster, Chairman	Term Expires:	11/17/17
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Elected Member: William S. Taylor Term Expires: 12/31/17

Appointed Member: Christopher M. Sandini, Sr. Term Expires: 1/26/18

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Segal Consulting as of January 1, 2015.

The actuarial liability for active members was	\$100,103,079
The actuarial liability for inactive members was	3,159,059
The actuarial liability for retired members was	<u>101,537,729</u>
The total actuarial liability was	<u>\$204,799,867</u>
System assets as of that date were (actuarial value)	<u>144,721,256</u>
The unfunded actuarial liability was	<u><u>\$60,078,611</u></u>
 The ratio of system's assets to total actuarial liability was	 70.7%
As of that date the total covered employee payroll was	\$33,257,157

The normal cost for employees on that date was 9.42% of payroll

The normal cost for the employer was 5.31% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.50% per annum
 Rate of Salary Increase: 3.00% for next three years then 4.25% per year for Group
 1 & 2 and 4.75% per year for Group 4

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2015	\$144,721,256	\$204,799,867	\$60,078,611	70.7%	\$33,257,157	180.6%
1/1/2013	\$119,783,323	\$180,896,754	\$61,113,431	66.2%	\$31,830,126	192.0%
1/1/2011	\$109,779,783	\$160,425,169	\$50,645,386	68.4%	\$30,462,000	166.3%
1/1/2009	\$95,234,652	\$151,387,471	\$56,152,819	62.9%	\$30,025,226	187.0%
1/1/2007	\$87,226,966	\$135,300,461	\$48,073,495	64.5%	\$26,853,365	179.0%
1/1/2005	\$73,679,832	\$119,539,852	\$45,860,020	61.6%	\$25,702,903	178.4%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Retirement in Past Years										
Superannuation	20	14	17	13	11	16	16	7	26	27
Ordinary Disability	0	0	0	0	0	0	0	0	1	1
Accidental Disability	4	1	0	1	0	1	3	1	4	2
Total Retirements	24	15	17	14	11	17	19	8	31	30
 Total Retirees, Beneficiaries and Survivors	338	347	350	351	352	343	349	346	368	385
 Total Active Members	680	702	710	693	681	677	712	693	685	657
Pension Payments										
Superannuation	\$4,079,149	\$4,391,935	\$4,666,811	\$4,805,499	\$5,137,060	\$5,376,543	\$5,709,790	\$5,860,641	\$6,253,636	\$6,807,922
Survivor/Beneficiary Payments	372,304	382,026	401,028	394,023	416,354	414,809	421,255	449,498	437,367	445,729
Ordinary Disability	121,190	112,998	102,255	103,895	100,812	100,710	102,150	82,010	103,261	118,970
Accidental Disability	1,154,024	1,150,632	1,148,322	1,138,898	1,147,953	1,210,555	1,178,575	1,179,726	1,314,041	1,396,885
Other	464,760	486,328	468,465	544,680	579,268	521,362	525,278	728,287	625,882	634,435
Total Payments for Year	<u>\$6,191,427</u>	<u>\$6,523,919</u>	<u>\$6,786,881</u>	<u>\$6,986,995</u>	<u>\$7,381,447</u>	<u>\$7,623,979</u>	<u>\$7,937,048</u>	<u>\$8,300,163</u>	<u>\$8,734,188</u>	<u>\$9,403,942</u>

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